

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE POWELL COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Powell County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Powell County, Kentucky. In accordance with OMB Circular A-133, we have issued an adverse opinion on the compliance requirements that are applicable to Powell County's major federal program: CFDA #97.040 – Chemical Stockpile Emergency Preparedness Program.

Financial Condition:

The Powell County Fiscal Court had total receipts of \$9,204,009 and disbursements of \$9,468,532 in fiscal year 2014. This resulted in a total ending fund balance of \$1,125,237, which is a decrease of \$264,523 from the prior year.

Report Comments:

- 2014-001 The General, Jail, And Ambulance Funds Have Deficits Totaling \$587,957
- 2014-002 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer
- 2014-003 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions
- 2014-004 The County Should Ensure Receipts Are Accounted For Properly
- 2014-005 Internal Controls Over Transfer Station Receipts Should Be Improved
- 2014-006 The Treasurer Should Comply With Uniform System Of Accounts
- 2014-007 The Jail Fund Disbursements Should Not Exceed Budgeted Appropriations
- 2014-008 The County Should Ensure All Disbursements Are Accounted For Properly
- 2014-009 The Treasurer Should Use More Care When Posting Debt Payments And Ensure Debt Balances On Financial Report Are Accurate
- 2014-010 The Fiscal Court Is Not Paying All Invoices Within 30 Days Of Receipts As Required by Kentucky Statute And Finance Charges Were Incurred On Late Payments
- 2014-011 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statement
- 2014-012 The Fiscal Court Should Approve All Invoices Prior To Payment
- 2014-013 The County Should Maintain Evidence For All Disbursements
- 2014-014 The County Lacks Adequate Segregation Of Duties Over The Payroll Function
- 2014-015 The Payroll Revolving Account Was Not Reconciled To Zero On A Monthly Basis
- 2014-016 Employees Should Not Receive Additional Pay For Performance Of Regular Job Duties
- 2014-017 Part-time Employees Should Not Receive Full-time Benefits
- 2014-018 Leave Balances Are Not Maintained Properly
- 2014-019 Employee Insurance Premiums Were Not Accounted For Properly
- 2014-020 The Fiscal Court Should Pay Overtime Properly
- 2014-021 The County Should Ensure All Eligible Employees Participate In Retirement
- 2014-022 The County Should Approve A Salary Schedule
- 2014-023 The County Should Maintain Complete And Accurate Capital Asset Schedules
- 2014-024 The Fiscal Court Minutes Should Be Complete, Adequately Maintained, And Filed In The Proper Location
- 2014-025 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
POWELL COUNTY FISCAL COURT
June 30, 2014
(Continued)

Report Comments: (Comments)

- 2014-026 The Detention Center Lacks Adequate Segregation Of Duties
- 2014-027 The Jailer Should Maintain Accurate Accounting Records For The Jail Commissary Fund
- 2014-028 The Jailer Did Not Submit An Annual Canteen Report To The County Treasurer
- 2014-029 The Jailer Is Not Maintaining Proper Inventory Logs On E-Cigarettes
- 2014-030 The Jailer Should Maintain Detailed Invoices For All Purchases
- 2014-031 The Jailer Should Improve Controls Over Inmate Refunds
- 2014-032 The County Did Not Properly Manage The Activity Of \$2,921,538 Of CSEPP Funds
- 2014-033 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Allowable Costs For The CSEPP
- 2014-034 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP
- 2014-035 The County Should Improve Controls And Comply With Requirements Of Procurement, Suspension, And Debarment For The CSEPP And Should Comply With KRS 424.260 And Bid All Expenditures Over \$20,000
- 2014-036 The County Should Improve Controls And Comply With Requirements Of Davis Bacon Act
- 2014-037 The County Should Improve Controls And Comply With Requirements Of Equipment And Real Property Management

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
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To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Powell County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by Powell County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Powell County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Powell County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis-of-Matter

As discussed in Note 11 to the financial statement, Powell County has actual deficit fund balances in its General, Jail, and Ambulance funds totaling \$587,957. The deficit balances are the cumulative result of interfund payables created when restricted funds were transferred and used for general disbursements of the county. Management does not have a plan to ensure the restricted funds are transferred back to the appropriate funds. The financial statement does not include any adjustments for these interfund payables. This matter does not affect our opinion on the financial statement.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Powell County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules, capital asset schedule, and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including

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Other Matters (Continued)

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2015 on our consideration of Powell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2014-001 The General, Jail, And Ambulance Funds Have Deficits Totaling \$587,957
- 2014-002 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer
- 2014-003 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions
- 2014-004 The County Should Ensure Receipts Are Accounted For Properly
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- 2014-010 The Fiscal Court Is Not Paying All Invoices Within 30 Days Of Receipts As Required By Kentucky Statute And Finance Charges Were Incurred On Late Payments
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- 2014-020 The Fiscal Court Should Pay Overtime Properly
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- 2014-022 The County Should Approve A Salary Schedule
- 2014-023 The County Should Maintain Complete And Accurate Capital Asset Schedules

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Other Reporting Required by Government Auditing Standards (Continued)

- 2014-024 The Fiscal Court Minutes Should Be Complete, Adequately Maintained, And Filed In The Proper Location
- 2014-025 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2014-026 The Detention Center Lacks Adequate Segregation Of Duties
- 2014-027 The Jailer Should Maintain Accurate Accounting Records For The Jail Commissary Fund
- 2014-028 The Jailer Did Not Submit An Annual Canteen Report To The County Treasurer
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- 2014-036 The County Should Improve Controls And Comply With Requirements Of Davis Bacon Act
- 2014-037 The County Should Improve Controls And Comply With Requirements Of Equipment And Real Property Management

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 29, 2015

POWELL COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

James Anderson, Jr.	County Judge/Executive
Eck Snowden, Jr.	Magistrate
Ricky Creed	Magistrate
Myers Arnett	Magistrate
John Barker	Magistrate
Donna Gabbard	Magistrate

Other Elected Officials:

Robert G. King	County Attorney
Travis Crabree	Jailer
Rhonda A. Barnett	County Clerk
Patricia Darlene Drake	Circuit Court Clerk
Danny Rogers	Sheriff
Dustin Billings	Property Valuation Administrator
Hondo Herne	Coroner

Appointed Personnel:

Connie Crabtree	County Treasurer
Patricia Sowder	Financial Officer
Kacey Davidson	Tax Administrator

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**POWELL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2014

POWELL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,751,034	\$ 38,016	\$
In Lieu Tax Payments	20,008		
Excess Fees	11,331		
Intergovernmental	147,141	1,432,006	1,184,706
Charges for Services	87,614		38,403
Miscellaneous	176,512	5,842	62,774
Interest	530	929	136
Total Receipts	<u>2,194,170</u>	<u>1,476,793</u>	<u>1,286,019</u>
DISBURSEMENTS			
General Government	696,637		
Protection to Persons and Property	2,911,033		1,274,604
General Health and Sanitation	270,445		73,211
Social Services	20,000		
Recreation and Culture			
Other Transportation Facilities and Services		35,219	
Roads		984,359	
Airports			
Debt Service	80,688		164,176
Administration	456,718	166,591	312,150
Total Disbursements	<u>4,435,521</u>	<u>1,186,169</u>	<u>1,824,141</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,241,351)</u>	<u>290,624</u>	<u>(538,122)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	2,882,242	20,000	420,000
Transfers To Other Funds	(707,500)	(219,594)	
Total Other Adjustments to Cash (Uses)	<u>2,174,742</u>	<u>(199,594)</u>	<u>420,000</u>
Net Change in Fund Balance	(66,609)	91,030	(118,122)
Fund Balance - Beginning (Restated)	203,793	256,632	127,211
Fund Balance - Ending	<u>\$ 137,184</u>	<u>\$ 347,662</u>	<u>\$ 9,089</u>
Composition of Fund Balance			
Bank Balance	\$ 354,696	\$ 354,794	\$ 45,143
Plus: Deposits In Transit	7,910	254	7,316
Less: Outstanding Checks	(225,422)	(7,386)	(43,370)
Fund Balance - Ending	<u>\$ 137,184</u>	<u>\$ 347,662</u>	<u>\$ 9,089</u>

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Forest Fire Fund	Grants Fund	NADA Housing Fund	Ambulance Fund
\$	\$ 1,256	\$	\$ 15,422	\$
254,290		2,843,829		733,766
676		59		601
254,966	1,256	2,843,888	15,422	734,410
17,859				
37,500	1,524	36,240		749,558
5,000			15,422	
4,500				
489,769				
6,000				18,550
4,056		14,366		210,718
564,684	1,524	50,606	15,422	978,826
(309,718)	(268)	2,793,282		(244,416)
		58,000		209,500
		(2,662,648)		
		(2,604,648)		209,500
(309,718)	(268)	188,634		(34,916)
626,196	1,960	107,791	127	35,181
\$ 316,478	\$ 1,692	\$ 296,425	\$ 127	\$ 265
\$ 317,323	\$ 1,692	\$ 296,564	\$ 127	\$ 26,786
(845)		(139)		(26,521)
\$ 316,478	\$ 1,692	\$ 296,425	\$ 127	\$ 265

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	<u>Budgeted Funds</u>	<u>Unbudgeted Funds</u>	
	<u>Dispatch Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$ 158,286	\$	\$ 1,948,592
In Lieu Tax Payments			35,430
Excess Fees			11,331
Intergovernmental			5,861,972
Charges for Services	114,166		973,949
Miscellaneous		124,601	370,330
Interest	32		2,405
Total Receipts	<u>272,484</u>	<u>124,601</u>	<u>9,204,009</u>
DISBURSEMENTS			
General Government			714,496
Protection to Persons and Property	223,699		5,234,158
General Health and Sanitation			343,656
Social Services			40,422
Recreation and Culture		136,497	140,997
Other Transportation Facilities and Services			35,219
Roads			1,474,128
Bus Services			6,000
Debt Service			263,414
Administration	51,443		1,216,042
Total Disbursements	<u>275,142</u>	<u>136,497</u>	<u>9,468,532</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,658)</u>	<u>(11,896)</u>	<u>(264,523)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			3,589,742
Transfers To Other Funds			<u>(3,589,742)</u>
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance	(2,658)	(11,896)	(264,523)
Fund Balance - Beginning (Restated)	16,859	14,010	1,389,760
Fund Balance - Ending	<u>\$ 14,201</u>	<u>\$ 2,114</u>	<u>\$ 1,125,237</u>
Composition of Fund Balance			
Bank Balance	\$ 19,066	\$ 2,799	\$ 1,418,990
Deposits In Transit	3,556		19,036
Less Outstanding Checks	<u>(8,421)</u>	<u>(685)</u>	<u>(312,789)</u>
Ending Fund Balance	<u>\$ 14,201</u>	<u>\$ 2,114</u>	<u>\$ 1,125,237</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Powell County includes all budgeted and unbudgeted funds under the control of the Powell County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forest Fire Fund - The primary purpose of this fund is to account for the taxes received and the related disbursements to prevent forest fires.

Grants Fund - The primary purpose of this fund is to account for the grants that are received from various state agencies and the federal government. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Nada Housing Fund - The primary purpose of this fund is to account for receipts and disbursements of housing projects in Nada, Kentucky.

Ambulance Fund - The purpose of this fund is to account for the receipts and disbursements of the ambulance service operations.

Dispatch Fund - The primary purpose of this fund is to account for all receipts and disbursements of the County's emergency operations.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

E. Powell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Powell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Powell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	State Grant Fund	Total Transfers In
General Fund	\$	\$ 219,594	\$ 2,662,648	\$2,882,242
Road Fund	20,000			20,000
Jail Fund	420,000			420,000
Ambulance Fund	209,500			209,500
State Grants Fund	58,000			58,000
Total Transfers Out	<u>\$ 707,500</u>	<u>\$ 219,594</u>	<u>\$ 2,662,648</u>	<u>\$3,589,742</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Agency Trust Funds

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from the inmates. The balance in the Jail Inmate Fund as of June 30, 2014 was \$14,697.

Note 5. Short-term Debt

A. Fire Truck

On October 4, 2013, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$80,200 for the purpose of purchasing a fire truck. The agreement requires one principal and interest payment, to be paid in full on June 30, 2014. As of June 30, 2014, the debt was paid in full.

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$	\$ 80,200	\$ 80,200	\$	\$
Total Short-term Debt	\$ 0	\$ 80,200	\$ 80,200	\$ 0	\$ 0

Note 6. Long-term Debt

A. Kentucky Local Correctional Facilities Construction Authority

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The KLCFCA issued \$510,503 of revenue bonds at various interest rates, of which the county has agreed to pay \$262,452 principal and proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2014, totaled \$17,929. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 17,929	\$ 619
Totals	\$ 17,929	\$ 619

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Long-term Debt (Continued)

B. Refinancing And Expansion Of Existing Detention Facility

On July 3, 2003, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$475,000 for the purpose of refinancing and expansion of the existing detention facility. The agreement requires monthly payments of \$3,221 for 240 months, to be paid in full on July 3, 2023. As of June 30, 2014, the principal balance outstanding was \$279,936. Payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 24,815	\$ 13,836
2016	26,124	12,528
2017	27,502	11,150
2018	28,952	9,700
2019-2023	169,336	23,924
2024	3,207	14
Totals	<u>\$ 279,936</u>	<u>\$ 71,152</u>

C. Improvements To Detention Facility

On January 7, 2005, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$495,000 for the purpose of financing the improvements to the detention facility. The agreement requires monthly payments of \$3,308 for 240 months, to be paid in full on January 7, 2025. As of June 30, 2014, the principal balance outstanding was \$323,348. Payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 23,595	\$ 16,101
2016	24,839	14,856
2017	26,149	13,547
2018	27,528	12,168
2019-2023	161,004	37,472
2024-2025	60,233	2,618
Totals	<u>\$ 323,348</u>	<u>\$ 96,762</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Long-term Debt (Continued)

D. Detention Facility Improvements And Expansion

On June 15, 2005, the Powell County Fiscal Court entered into a financing agreement with Whitaker Bank to borrow \$300,000 for improvements to the existing detention facility and the conversion of the existing senior citizens center to a holding facility for class D felons. The agreement requires monthly payments of \$2,064 for 240 months, to be paid in full on June 15, 2025. As of June 30, 2014, the principal balance outstanding was \$204,041. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 13,888	\$ 10,876
2016	14,672	10,092
2017	15,499	9,265
2018	16,374	8,390
2019-2023	96,809	27,011
2024-2025	46,799	2,728
Totals	<u>\$ 204,041</u>	<u>\$ 68,362</u>

E. Detention Facility Improvements And Expansion

On October 2, 2006, the Powell County Fiscal Court entered into a financing agreement with People's Exchange Bank to borrow \$475,000 for the purpose of financing the improvements to the detention facility. The agreement requires monthly principal and interest payments beginning November 1, 2006, at a rate of 5%, with the full amount to be paid in full on October 1, 2016. As of June 30, 2014, the principal balance outstanding was \$294,937. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 20,438	\$ 18,772
2016	21,590	17,620
2017	252,909	5,606
Totals	<u>\$ 294,937</u>	<u>\$ 41,998</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Long-term Debt (Continued)

F. Ambulance Lease

On June 1, 2013 the Powell County Fiscal Court entered into a capital lease with People's Exchange Bank for the acquisition of an ambulance. The agreement requires monthly interest and principal payments beginning July 1, 2013, with a final scheduled payment date of June 1, 2017. As of June 30, 2014, the principal balance outstanding was \$57,965. Payments for the remaining years are as follows:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 18,806	\$ 1,386
2016	19,354	837
2017	19,805	266
Totals	<u>\$ 57,965</u>	<u>\$ 2,489</u>

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 1,297,722	\$	\$ 119,566	\$ 1,178,156	\$ 119,471
Total Long-term Debt	<u>\$ 1,297,722</u>	<u>\$ 0</u>	<u>\$ 119,566</u>	<u>\$ 1,178,156</u>	<u>\$ 119,471</u>

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$450,384, FY 2013 was \$450,256, and FY 2014 was \$443,649.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Employee Retirement System (Continued)

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Powell County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2014, Powell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Related Party Transactions

The fiscal court expended \$15,422 for construction expenses for the Nada Housing Project from Snowden Construction. Snowden Construction is owed by the son of Eck Snowden, a magistrate of Powell County Fiscal Court.

Note 11. Fund Balance - Deficits

As of June 30, 2014, the General, Jail, and Ambulance Fund had a deficit fund balance in the amount of \$587,957. This deficit is due to transfers from restricted funds and the resulting interfund payables and outstanding liabilities/encumbrances for fiscal year ended June 30, 2014.

	General	Jail	Ambulance	Total
Cash Balance	\$ 137,184	\$ 9,089	\$ 265	\$ 146,538
Interfund Payables	(104,617)	(453,028)		(557,645)
Encumbrances	(127,609)	(26,904)	(22,337)	(176,850)
Fund Balance	<u>\$ (95,042)</u>	<u>\$ (470,843)</u>	<u>\$ (22,072)</u>	<u>\$ (587,957)</u>

Note 12. Prior Period Adjustments

The beginning balance of the General Fund was increased by \$134 to account for prior year voided checks and \$23 for a balancing error and decreased by the Payroll Revolving Account by \$90,144 added to the General Fund in prior year, resulting in a beginning balance of \$203,793. The beginning balance of the Jail Fund was increased by \$3,463 to account for prior year voided checks, resulting in a beginning balance of \$127,211. The beginning balance of the Jail Commissary Fund was decreased by \$14,694. These monies were amounts held by the Jail on behalf of the inmates. In the current year, these monies are shown in the Jail Inmate Fund as an Agency Trust Fund described at Note 4. The beginning debt principal balance for the Detention Facility Improvements and Expansion was reduced by \$21,799 to account for additional principal payments not accounted for in prior years.

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POWELL COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,777,000	\$ 1,777,000	\$ 1,751,034	\$ (25,966)
In Lieu Tax Payments	15,500	15,500	20,008	4,508
Excess Fees	4,000	4,000	11,331	7,331
Licenses and Permits	100	100		(100)
Intergovernmental	147,800	158,083	147,141	(10,942)
Charges for Services	86,100	86,100	87,614	1,514
Miscellaneous	38,200	121,700	176,512	54,812
Interest	1,000	1,000	530	(470)
Total Receipts	2,069,700	2,163,483	2,194,170	30,687
DISBURSEMENTS				
General Government	638,508	722,399	696,637	25,762
Protection to Persons and Property	3,690,635	3,775,967	2,911,033	864,934
General Health and Sanitation	293,620	354,939	270,445	84,494
Social Services	20,500	20,500	20,000	500
Debt Service			80,688	(80,688)
Administration	776,227	835,552	456,718	378,834
Total Disbursements	5,419,490	5,709,357	4,435,521	1,273,836
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,349,790)	(3,545,874)	(2,241,351)	1,304,523
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	3,876,999	3,876,999	2,882,242	(994,757)
Transfers To Other Funds	(534,761)	(534,761)	(707,500)	(172,739)
Total Other Adjustments to Cash (Uses)	3,342,238	3,342,238	2,174,742	(1,167,496)
Net Change in Fund Balance	(7,552)	(203,636)	(66,609)	137,027
Fund Balance Beginning (Restated)	7,552	203,636	203,793	157
Fund Balance - Ending	\$ 0	\$ 0	\$ 137,184	\$ 137,184

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$ 40,000	\$ 40,000	\$ 38,016	\$ (1,984)
Intergovernmental	1,278,489	1,278,489	1,432,006	153,517
Miscellaneous	7,000	7,000	5,842	(1,158)
Interest	1,000	1,000	929	(71)
Total Receipts	1,326,489	1,326,489	1,476,793	150,304
DISBURSEMENTS				
Transportation Facilities and Services	30,000	35,300	35,219	81
Roads	911,030	1,053,542	984,359	69,183
Administration	374,410	353,748	166,591	187,157
Total Disbursements	1,315,440	1,442,590	1,186,169	256,421
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	11,049	(116,101)	290,624	406,725
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	20,000	20,000	20,000	
Transfers To Other Funds	(165,964)	(165,964)	(219,594)	(53,630)
Total Other Adjustments to Cash (Uses)	(145,964)	(145,964)	(199,594)	(53,630)
Net Change in Fund Balance	(134,915)	(262,065)	91,030	353,095
Fund Balance Beginning	134,915	262,065	256,632	(5,433)
Fund Balance - Ending	\$ 0	\$ 0	\$ 347,662	\$ 347,662

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,246,600	\$ 1,246,600	\$ 1,184,706	\$ (61,894)
Charges for Services	60,100	60,100	38,403	(21,697)
Miscellaneous	70,000	70,000	62,774	(7,226)
Interest	300	300	136	(164)
Total Receipts	1,377,000	1,377,000	1,286,019	(90,981)
DISBURSEMENTS				
Protection to Persons and Property	1,171,089	1,259,335	1,274,604	(15,269)
General Health and Sanitation	79,995	76,433	73,211	3,222
Debt Service	168,921	165,124	164,176	948
Administration	322,299	313,711	312,150	1,561
Total Disbursements	1,742,304	1,814,603	1,824,141	(9,538)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(365,304)	(437,603)	(538,122)	(100,519)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	313,855	313,855	420,000	106,145
Total Other Adjustments to Cash (Uses)	313,855	313,855	420,000	106,145
Net Change in Fund Balance	(51,449)	(123,748)	(118,122)	5,626
Fund Balance Beginning (Restated)	51,449	123,748	127,211	3,463
Fund Balance - Ending	\$ 0	\$ 0	\$ 9,089	\$ 9,089

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 261,100	\$ 261,100	\$ 254,290	\$ (6,810)
Miscellaneous	1,000	1,000		(1,000)
Interest	1,000	1,000	676	(324)
Total Receipts	263,100	263,100	254,966	(8,134)
DISBURSEMENTS				
General Government	16,907	18,323	17,859	464
Protection to Persons and Property	37,500	37,500	37,500	
General Health and Sanitation	1,000	1,000		1,000
Social Services	6,000	6,000	5,000	1,000
Recreation and Culture	4,500	4,500	4,500	
Road Facilities	416,693	591,693	489,769	101,924
Airports	6,000	6,000	6,000	
Administration	34,500	224,281	4,056	220,225
Total Disbursements	523,100	889,297	564,684	324,613
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	(260,000)	(626,197)	(309,718)	316,479
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	5,000	5,000		(5,000)
Transfers To Other Funds	(5,000)	(5,000)		5,000
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(260,000)	(626,197)	(309,718)	316,479
Fund Balance Beginning	260,000	626,197	626,196	(1)
Fund Balance - Ending	\$ 0	\$ 0	\$ 316,478	\$ 316,478

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FOREST FIRE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,150	\$ 1,150	\$ 1,256	\$ 106
Total Receipts	1,150	1,150	1,256	106
DISBURSEMENTS				
Protection to Persons and Property	1,550	1,550	1,524	26
Total Disbursements	1,550	1,550	1,524	26
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(400)	(400)	(268)	132
Net Change in Fund Balance	(400)	(400)	(268)	132
Fund Balance Beginning	400	400	1,960	1,560
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,692	\$ 1,692

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 3,721,035	\$ 3,721,035	\$ 2,843,829	\$ (877,206)
Interest	60	60	59	(1)
Total Receipts	3,721,095	3,721,095	2,843,888	(877,207)
DISBURSEMENTS				
General Government	15,000	15,000		15,000
Protection to Persons and Property	62,384	61,467	36,240	25,227
Recreation and Culture	39,188	39,188		39,188
Administration	13,300	14,217	14,366	(149)
Total Disbursements	129,872	129,872	50,606	79,266
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	3,591,223	3,591,223	2,793,282	(797,941)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	40,204	40,204	58,000	17,796
Transfers To Other Funds	(3,706,035)	(3,706,035)	(2,662,648)	1,043,387
Total Other Adjustments to Cash (Uses)	(3,665,831)	(3,665,831)	(2,604,648)	1,061,183
Net Change in Fund Balance	(74,608)	(74,608)	188,634	263,242
Fund Balance Beginning	74,608	74,608	107,791	33,183
Fund Balance - Ending	\$ 0	\$ 0	\$ 296,425	\$ 296,425

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	NADA HOUSING FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
In Lieu Tax Payments	\$	\$ 15,422	\$ 15,422	\$
Total Receipts		15,422	15,422	
DISBURSEMENTS				
Social Services	126	15,548	15,422	126
Total Disbursements	126	15,548	15,422	126
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(126)	(126)		126
Net Change in Fund Balance	(126)	(126)		126
Fund Balance Beginning	126	126	127	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 127	\$ 127

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,200	\$ 10,200	\$	\$ (10,200)
Charges for Services	870,500	870,500	733,766	(136,734)
Miscellaneous	10,000	10,000	601	(9,399)
Interest	500	500	43	(457)
Total Receipts	891,200	891,200	734,410	(156,790)
DISBURSEMENTS				
Protection to Persons and Property	798,702	819,292	749,558	69,734
Debt Service			18,550	(18,550)
Administration	253,000	232,410	210,718	21,692
Total Disbursements	1,051,702	1,051,702	978,826	72,876
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(160,502)	(160,502)	(244,416)	(83,914)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	100,502	100,502	209,500	108,998
Transfers To Other Funds	(5,000)	(5,000)		5,000
Total Other Adjustments to Cash (Uses)	95,502	95,502	209,500	113,998
Net Change in Fund Balance	(65,000)	(65,000)	(34,916)	30,084
Fund Balance Beginning	65,000	65,000	35,181	(29,819)
Fund Balance - Ending	\$ 0	\$ 0	\$ 265	\$ 265

POWELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

DISPATCH FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 130,000	\$ 130,000	\$ 158,286	\$ 28,286
Charges for Services	102,000	102,000	114,166	12,166
Interest			32	32
Total Receipts	232,000	232,000	272,484	40,484
DISBURSEMENTS				
Protection to Persons and Property	229,000	238,098	223,699	14,399
Administration	64,200	70,961	51,443	19,518
Total Disbursements	293,200	309,059	275,142	33,917
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(61,200)	(77,059)	(2,658)	74,401
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	60,200	60,200		(60,200)
Total Other Adjustments to Cash (Uses)	60,200	60,200		(60,200)
Net Change in Fund Balance	(1,000)	(16,859)	(2,658)	14,201
Fund Balance Beginning	1,000	16,859	16,859	
Fund Balance - Ending	\$ 0	\$ 0	\$ 14,201	\$ 14,201

POWELL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

General Fund Debt Service disbursements exceeded budgeted appropriations by \$80,688.
Jail Fund Protection of Persons and Property disbursements exceeded budgeted appropriations by \$15,269.
Grant Fund Administration disbursements exceeded budgeted appropriations by \$149.
Ambulance Fund Debt Service disbursements exceeded budgeted appropriations by \$18,550.

Note 3. Excess of Disbursements Over Total Budget

Jail Fund overspent the total budgeted funds by \$9,538.

POWELL COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

POWELL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 855,434	\$ 11,032	\$	\$ 866,466
Construction In Progress	520,595	2,567,170	157,058	2,930,707
Buildings	4,156,049	157,058		4,313,107
Vehicles and Equipment	2,366,215	338,449	135,000	2,569,664
Infrastructure	2,526,722	999,474		3,526,196
	<u>\$ 10,425,015</u>	<u>\$ 4,073,183</u>	<u>\$ 292,058</u>	<u>\$14,206,140</u>
Total Capital Assets				

POWELL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 3,000	3-25
Vehicles	\$ 3,000	3-5
Infrastructure	\$ 25,000	10-50

Note 2. Prior Year Adjustment

The beginning balance for Infrastructure was decreased by \$30 due to prior year error, resulting in a beginning balance \$2,526,722.

POWELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

POWELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Federal Grantor Program Title Grant Name (CFDA #)	Pass-Through Grantor's Number	Expenditures
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through Department for Local Government: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228)		
	13000036521	\$ 15,422
Total U.S. Department of Housing and Urban Development		15,422
<u>U.S. Department of Homeland Security</u>		
Passed Through Kentucky Department of Military Affairs:		
Chemical Stockpile Emergency Preparedness (CFDA 97.040)		
	Not available	2,921,538 *
Emergency Management Performance Grants (CFDA 97.042)		
	1300000671	7,052
Total U.S. Department Of Homeland Security		2,928,590
Total Cash Expenditures of Federal Awards		\$ 2,944,012

* - Denotes Major Program

POWELL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Powell County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2014 or were deemed high risk. There was a Type A program. The major program tested was:

- Chemical Stockpile Emergency Preparedness Program

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Jr., Powell County Judge/Executive
Members of the Powell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Powell County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated June 29, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Powell County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Powell County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, 2014-013, 2014-014, 2014-015, 2014-016, 2014-017, 2014-018, 2014-019, 2014-020, 2014-021, 2014-022, 2014-023, 2014-024, 2014-025, 2014-026, 2014-027, 2014-028, 2014-029, 2014-030 and 2014-031 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, 2014-013, 2014-014, 2014-015, 2014-016, 2014-017, 2014-018, 2014-019, 2014-020, 2014-021, 2014-022, 2014-023, 2014-024, 2014-025, 2014-026, 2014-027, 2014-028, 2014-029, 2014-030 and 2014-031.

County Judge's Responses to Findings

The Powell County Judge's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 29, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James Anderson, Jr., Powell County Judge/Executive
Members of the Powell County Fiscal Court

**Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133**

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited Powell County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Powell County's major federal programs for the year ended June 30, 2014. Powell County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Powell County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Powell County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Powell County's compliance.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Basis for Adverse Opinion on CDFA # 97.040 - Chemical Stockpile Emergency Preparedness Program

As described in the accompanying schedule of findings and questioned costs, Powell County did not comply with requirements regarding CFDA 97.040 Chemical Stockpile Emergency Preparedness Program as described in finding numbers 2014-032 for all Compliance requirements, 2014-033 for Allowable Costs, 2014-034 for Cash Management, 2014-035 for Procurement, Suspension and Debarment, 2014-036 for Davis Bacon and 2014-037 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for Powell County to comply with the requirements applicable to that program.

Adverse Opinion on CDFA # 97.040 - Chemical Stockpile Emergency Preparedness Program

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, Powell County did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 97.040 Chemical Stockpile Emergency Preparedness Program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-032, 2014-033, 2014-034, 2014-035, 2014-036, and 2014-037. Our opinion on each major federal program is not modified with respect to these matters.

Powell County's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Powell County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Powell County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Powell County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Powell County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Internal Control over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-032, 2014-033, 2014-034, 2014-035, and 2014-037 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-036 to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 29, 2015

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POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2014

**POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs: Adverse

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a) ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Number and Name of Federal Program or Cluster

CFDA # 97.040 – Chemical Stockpile Emergency Preparedness Program

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit

Financial Statement Findings

2014-001 The General, Jail, And Ambulance Funds Have Deficits Totaling \$587,957

The County has deficit fund balances in the General, Jail and Ambulance funds totaling \$587,957. These deficits are due to transfers due back from funds where restricted moneys were used inappropriately and disbursements the county encumbered over their available cash balances.

	<u>General</u>	<u>Jail</u>	<u>Ambulance</u>	<u>Total</u>
Cash Balance	\$ 137,184	\$ 9,089	\$ 265	\$ 146,538
Interfund Payables	(104,617)	(453,028)		(557,645)
Encumbrances	(127,609)	(26,904)	(22,337)	(176,850)
Fund Balance	<u>\$ (95,042)</u>	<u>\$ (470,843)</u>	<u>\$ (22,072)</u>	<u>\$ (587,957)</u>

The County transferred restricted money from the Road and the Local Government Economic Assistance (LGEA) funds to the General and Jail funds. The County has not repaid any portion of the money. A schedule of transfers from restricted accounts and calculation of deficit fund balances is as follows:

<u>Due From</u>	<u>Due To</u>	<u>6/30/2013 Balance</u>	<u>Increase/ (Decrease)</u>	<u>6/30/2014 Balance</u>
Jail	Road	\$ 253,028		\$ 253,028
Jail	LGEA	200,000		200,000
General	LGEA	70,987		70,987
General	Road		33,630	33,630
		<u>\$ 524,015</u>	<u>\$ 33,630</u>	<u>\$ 557,645</u>

KRS 42.455(2), (3) and (4) specifically prohibits the expenditure of LGEA funds for administration of the government and also states coal impact counties must expend 100% of funds in transportation. The fiscal court used a portion of the coal impact funds for disbursements other than transportation. These non-allowable disbursements are due back to the LGEA Fund to be expended for transportation. Also, the Road Fund is restricted for transportation, with the exception of the amount calculated on the Road Fund Allocation Worksheet. The disbursements exceeded the budgeted amount that could be used for purposes other than transportation during the fiscal year. As a result, the Road Fund is due the amount that was expended in excess of the allowable allocation.

We recommend that the Fiscal Court seek guidance from the Department for Local Government and the County Attorney on the necessary actions to be taken to eliminate the deficit fund balances.

County Judge/Executive James Anderson's Response: As almost all of this relates to deficits that were incurred many years ago, I think it's only fair to make it known that they were not a result of the current of [sic] administration. We will try to dedicate funds to these deficits as money becomes available.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-002 The County Did Not Provide An Accurate Financial Report To State Local Finance Officer

The Fiscal Court is required to submit a quarterly report to the State Local Finance Officer and to report all money received to date in all funds both budgeted and unbudgeted. The report should include by fund, all receipts to date, transfers, borrowed money as well as claims allowed since the beginning of the fiscal year for actual and budgeted amounts. The following was noted relating to the 4th quarter report submitted to the State Local Finance Officer:

- No encumbrances were reported.
- The Liabilities section did not have accurate ending principal and interest balances. The principal balances were overstated \$2,674,362 and interest balances were overstated \$185,772.
- The General Fund cash balance was incorrect and after adjustments for unrecorded receipts and a receipt posted twice that balance was understated by \$891
- The LGEA Fund cash balance was overstated by \$258 for an outstanding check that was not posted.
- The appropriation ledger for the Grants Fund did not include a disbursement for \$183.

By not accurately completing the 4th quarter financial report, the Fiscal Court could not properly monitor receipts and disbursements to manage the County appropriately. We recommend the Fiscal Court review the State Local Finance Officer policy manual to ensure proper recording and reporting of receipts and disbursements of the County.

County Judge/Executive James Anderson's Response: Now that the treasurer is aware of these issues we will expect any future financial reports to be accurate and free from errors. In relation to the encumbrances, our new financial officer is currently working on a purchase order system that is included in our office software that will more accurately reflect these balances.

2014-003 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions

The County has a lack of segregation of duties over receipts, disbursements, and record-keeping functions. Typically, when one person is in charge of these functions, strong compensating controls are needed. The treasurer posts receipts, posts some disbursements, and prepares bank reconciliations and reports. The finance officer posts other disbursements and completes payroll. There does not appear to be any review of receipts or disbursements after they are initially input into the computer system. We recommend the following procedures be implemented to strengthen internal controls over these various functions:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for. The person can document this by initialing the receipts ledgers and verifying the receipts are posted to the correct account codes.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-003 The County Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Record-Keeping Functions (Continued)

- An independent person should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person can document this by initialing the bank statement.
- An independent person should review the treasurer's bank reconciliations for accuracy and agree them to book balances for all funds. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice. Also, the employee should ensure the check numbers agree to the check register and vouchers and the disbursements are posted to the appropriate account code.

County Judge/Executive James Anderson's Response: We have already addressed most of these issues. We are also currently rewriting our office personnel job descriptions as well as reconfiguring office staff which will also prevent these things from reoccurring in the future.

2014-004 The County Should Ensure Receipts Are Accounted For Properly

During receipt testing, several instances occurred where receipts were posted to incorrect receipt account codes. Tangible taxes received from the Sheriff were posted in the real estate property tax code. The County posted a bank deposit error of \$20,745 incorrectly in payroll tax and then posted the matching disbursement in bank charges, overstating both receipts and disbursements in the General Fund. The County posted receipts from a surplus property sale of \$5,433 to prior year surplus. Prior year receipts of \$1,200 for surplus property were posted in current year receipts and then \$1,190 was posted as a negative receipt in prior year surplus. Adjustments had to be made to correct these issues. Ensuring receipts are accounted for in correct account codes help the County with budgeting and other normal business procedures.

The County should ensure receipts are posted and accounted for properly. If review procedures were in place, the County could reduce time by correcting issues found during bank reconciliation procedures and audit costs incurred trying to determine disposition of receipts and disbursements. We recommend the County put review procedures in place to ensure receipts are accounted for properly.

County Judge/Executive James Anderson's Response: Now that the treasurer is aware of these issues we would expect these things to be corrected and not happen again in the future.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-005 Internal Controls Over Transfer Station Receipts Should Be Improved

During our audit, we noted a lack of internal controls over transfer station receipts. Good internal controls over cash receipts help safeguard assets from employee theft, robbery, and unauthorized use. Good internal controls also enhance the accuracy and reliability of accounting records by reducing the risk of errors, intentional mistakes, and misrepresentations in the accounting process. Our review of the cash receipt process for the transfer station revealed weaknesses in internal controls that should be addressed. The Powell County transfer station collects money from customers who take their garbage there. Based on inquiry, three transfer station employees maintain one cash register receipt tape on site at the transfer station to document the total amount of funds received each day. However, these cash register receipt tapes have only the total collected each day when brought to the treasurer. Customers are given a receipt only upon their request. Usually, a transfer station employee will deliver the daily collections to the county treasurer for deposit each day. However, occasionally the Deputy Judge will bring the money over when he is at the transfer station. While testing these procedures, auditors noted that cash register receipt tapes were haphazardly tossed into a file with no way to agree to the daily deposits. Moreover, the receipts that the treasurer gives to the transfer station for the daily collection amounts are only legible for the first two to three pages of each receipt book. From the records auditors were able to obtain and that were legible, it appears that not all deposits were being made timely. There is a severe lack of internal controls and monitoring over transfer station receipts.

Due to the high volume of cash transactions, we recommend the county implement the following procedures:

- Pre-numbered receipts should be written and maintained for all monies collected at the transfer station whether the customer wants a receipt or not.
- Receipts should be batched daily. Total collections for the day should be agreed to total receipts.
- The transfer station should keep a log of total collections for the day.
- All monies and a copy of the receipts should be given to the treasurer.
- The treasurer should review all receipts to check for missing receipts numbers and recompute receipts and moneys collected each day. On a regular basis, the treasurer and transfer station employee should agree his receipt log to her total deposited for each day to ensure all transfer station collection receipts are accounted for properly.

County Judge/Executive James Anderson's Response: I think it should be noted that beyond the register receipt tape that the register also has an SD card that records transaction. We will work to try and correct the issue of a receipt not being made for ever customer. Also, we will try and make sure that the office staff presents the transfer station with a legible receipt upon receipt of money and that the files are kept in a more orderly fashion.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-006 The Treasurer Should Comply With Uniform System Of Accounts

The Treasurer should comply with the uniform system of accounts. Based on the State Local Finance Officer Budget Handbook, a county treasurer must keep records and make reports as set out in KRS 68.210, 68.020, 68.300, 68.360 and 66.480 and must also keep the following records as required by the Uniform System of Accounts for Kentucky Counties, this includes a provision that the treasurer countersign checks only if the following conditions exist:

- Claim reviewed by the fiscal court.
- Sufficient fund balance and adequate cash in the bank to cover the check.
- Adequate free balance in a properly budgeted appropriation account to cover the check.

We noted the pre-approved list of disbursements did not include all recurring disbursements. \$413,601 of recurring disbursements that should have been included was not and had not subsequently been approved by the fiscal court. In addition, CSEPP disbursements for the construction of the EOC building were not approved by the fiscal court. Finally, we noted 76 out of 247 disbursements tested did not have fiscal court approval.

While reviewing the bank statements, we noted the Jail, Ambulance, Dispatch, Grant and CSEPP bank accounts had deficit balances at various times. Usually, the bank will contact the Treasurer to let her know that there are not enough funds to cover the checks for the day, causing the Treasurer to make transfers from other funds to cover these balances. The County incurred overdraft charges of \$232 as follows:

- Jail Fund - \$29
- Ambulance Fund - \$87
- Dispatch Fund - \$29
- Grant Fund - \$87

Furthermore, during cash procedures, we noted a General Fund receipt that was not posted to the ledger and a LGEA Fund disbursement not posted to the ledger. The General Fund reconciled ending balance per the bank reconciliation for June 30, 2014 did not agree to the Fourth Quarter Financial report. The ending reconciled balance was understated \$12,779 from the actual General Fund balance.

While completing audit procedures, we observed Jail Fund checks dated February 11, 2015 were given to the Judge/Executive on February 26, 2015 to be signed along with a transfer check from the General Fund to the Jail Fund to cover these disbursements. Therefore, it appears that checks are being held before they are mailed. Checks should be signed and mailed on the date the checks are written. The county should reissue checks for the correct date if this occurs in the future. Also, during the month of February 2015, electric bills paid by the treasurer were actual disconnect notices indicating these may not have been paid by the due dates and the ambulance liability insurance bill was due on January 1, 2015 but the payment did not get paid until the end of February.

Furthermore, the Jail Fund budget was overspent by \$9,539. There were also budget line items overspent during the fiscal year in the General, Jail, Grants and Ambulance funds. Two of these overspent line items were due to the treasurer not posting debt payments in the corresponding debt account codes.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-006 The Treasurer Should Comply With The Uniform System Of Accounts (Continued)

All three criteria for signing checks should be met before the Treasurer counter signs checks. She should review the available cash balance, available budget balance and the minutes for fiscal court approval. By signing checks without reviewing for these criteria, deficit cash balances can occur causing overdraft bank charges, the budget can be overspent causing disbursements in excess of the budget to be void and illegal, and payments being made that the fiscal court is unaware of, allows the treasurer to override the internal controls procedures of the county.

The Treasurer should know, at any given time, the amount of available funds in each bank account. The above noted items indicate that she is unaware of available cash balances. If receipts and disbursements are not posted and coded properly then the corresponding funds reconciled bank balances can be overstated or understated. The Treasurer should not sign checks until she ensures that funds are available in the account. Had it been determined that cash balances were available during the purchase order process, the Treasurer would have been aware that transfers would have been necessary before checks were written. If funds are not available, a transfer should be prepared immediately. Signed checks should not be held before they are mailed. We recommend the treasurer comply with the uniform system of accounts and ensure funds have an available cash balance, available budget balance, and the fiscal court has approved the payments before signing checks.

County Judge/Executive James Anderson's Response: The issues with the pre-approved list should now be corrected. In relation to the CSEPP expenditures for the construction of the EOC building, this process was handled in the way that was recommended to us by both the State and FEMA folks that oversaw the project. As one of the most important aspects of the treasurer's job is to manage county monies we will continue to encourage the treasurers to be more accurate and diligent in book keeping and in paying bills in a timely fashion. If the account balances are accurate the fiscal court and department heads will be in a much better position to know their financial position at any given time.

2014-007 The Jail Fund Disbursements Should Not Exceed Budgeted Appropriations

During audit procedures, we noted the Jail Fund budget was overspent by \$9,538. Furthermore, the county overspent in excess of appropriations per line items, as noted below.

- General Fund Debt Service disbursements exceeded budgeted appropriations by \$80,688.
- Jail Fund Protection of Persons and Property disbursements exceeded budgeted appropriations by \$15,269.
- Grant Fund Administration disbursements exceeded budgeted appropriations by \$149.
- Ambulance Fund Debt Service disbursements exceeded budgeted appropriations by \$18,550.

Each time the county spends in excess of a line item, it may be violating KRS 68.300, which states "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." Purchase requests should not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate budget transfers have been made. By expending in excess of the budgeted line items, disbursements are potentially void. We recommend the Treasurer present line item budget transfers to the fiscal court as necessary to ensure disbursements do not exceed budgeted appropriations.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-007 The Jail Fund Disbursements Should Not Exceed Budgeted Appropriations (Continued)

County Judge/Executive James Anderson's Response: I think we now have processes in place where department heads and elected officials are more aware of their expenditures per month which should help in preventing this in the future. It is my understanding that the ambulance portion of this issue is in relation to this expenditure being placed in wrong line, not that it was not budgeted for.

2014-008 The County Should Ensure All Disbursements Are Accounted For Properly

During disbursements testing, numerous issues were noted:

- Overdraft, late fees, and finance charges of \$3,512 were paid.
- Checks were not written in numerical sequence, indicating they were backdated.
- Two checks were signed only by the treasurer.
- Checks in the Jail Fund were held two weeks prior to mailing due to the treasurer not making the transfer to the Jail Fund timely.
- Utility bills were paid after the due date and the county received disconnect notices.
- Invoices were sent to the CSEPP Director and the Jail and not to the judge's office to be included in the claims list causing invoices to be paid late.
- Debt was posted to an inappropriate account code.
- Numerous instances of disbursements were posted to inappropriate codes, including utilities.
- Gas invoices of \$650 were paid twice and were not noticed until testing was completed.
- Invoices were not reviewed by the treasurer and judge/executive before signing checks.
- Detailed invoices were not maintained for all disbursements.
- Disbursements were paid without fiscal court approval.

The above-mentioned items indicate a failure in the internal control system. The uniform system of accounts gives guidance as to how records should be maintained. The county does maintain these required records; however, no review procedures or verifications appear to be put in place to ensure the above errors cease occurring. Until the county requires financial personnel to be diligent in their procedures for handling disbursements through the entire disbursement process, more errors can occur and the frequency of errors can increase jeopardizing the county's financial position. We recommend the county ensure all disbursements are accounted for properly and ensure they address the issues noted above and eliminate the failure in the internal controls system by ensuring review procedures are in place and documented.

County Judge/Executive James Anderson's Response: Again we will encourage the treasurer to correct the issues mentioned here that are in relation to that job description. Also, our new financial officer has already worked to correct many of the invoices issues. In addition the financial officer and I are reviewing invoices prior to checks being issued.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-009 The Treasurer Should Use More Care When Posting Debt Payments And Ensure Debt Balances On Financial Report Are Accurate

During debt testing procedures, we noted the Treasurer did not post all debt payments in debt account codes. All debt payments must be posted to the appropriate debt account code and separated properly between principal and interest. Principal and interest payments were not posted accurately by not reviewing the County's debt schedules. In addition, the liability section of the financial report overstated principal outstanding and interest outstanding by \$2,674,362 and \$185,772, respectively. By overstating debt balances, the county does not have a true representation of total debt outstanding.

We recommend that the Treasurer maintain amortization schedules and when debt payments are made, she should check off that they agree to the schedule and post principal and interest as noted. Also, the treasurer could contact financing institutions at year end to ensure ending balances of debt are accurate. This would also enable her to ensure accuracy on her quarterly report submitted to the Department for Local Government.

County Judge/Executive James Anderson's Response: We will encourage the treasurer to correct these issues and expect them to not reoccur.

2014-010 The Fiscal Court Is Not Paying All Invoices Within 30 Days Of Receipts As Required By Kentucky Statute And Finance Charges Were Incurred On Late Payments

KRS 65.140 states that bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

We tested 247 disbursements, and noted 43 invoices had not been paid within the required 30 days, and there was no documentation that the delay was the result of the County making a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor.

It appears that the delays were caused by management overriding controls causing the County to incur late charges of \$3,512 as noted below,

- \$124 of late fees and interest on credit card usage.
- \$1,314 of finance charges on liability insurance payments.
- \$1,379 of finance charges on worker's compensation payments.
- \$454 of late fees on telephone bills.
- \$9 of finance charges on appliance purchase.
- \$232 of overdraft fees incurred on the bank accounts.

The County is not in compliance with KRS 65.140 and the County could and did incur late payment fees for invoices paid over 30 days. In addition, they expended in excess of the available cash balance in their funds and incurred overdraft charges.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-010 The Fiscal Court Is Not Paying All Invoices Within 30 Days Of Receipts As Required By Kentucky Statute And Finance Charges Were Incurred On Late Payments (Continued)

Poor financial management practices and weak internal controls cause errors to occur and go undetected for a significant time period and result in financial ramifications such as these. Additionally, penalties and interest are unnecessary expenses that are avoidable and a wasteful use of taxpayer resources. We recommend that the County ensure compliance with KRS 65.140 and pay all bills within 30 days.

County Judge/Executive James Anderson's Response: As most of the bills listed here are on the pre-approved list we will again work with the treasurer to make sure that these are being paid in a timely manner, not only to be in compliance but to avoid unnecessary expense to our tax payers.

2014-011 Encumbrances Are Not Reported On The Treasurer's Quarterly Report Or The Financial Statement

Encumbrances have not been disclosed on the face of the Fourth Quarter Financial Report. The Department for Local Government requires the County to disclose encumbrances on the face of the Fourth Quarter Financial Report. The Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual states in part, "enter the total dollar amount of unpaid purchase orders from the purchase order journal."

We noted \$181,592 of encumbrances that should have been reported on the fourth quarter report detailed as follows:

	<u>Encumbrances</u>
General Fund	\$ 127,609
Road Fund	4,742
Jail Fund	26,904
Ambulance Fund	<u>22,337</u>
Total	<u>\$ 181,592</u>

The County is not in compliance with Department for Local Government guidelines nor were they aware of their unencumbered cash balance at the end of the fiscal year.

We recommend that the County maintain a purchase order journal, from which the total of outstanding purchases at each period end should be disclosed as encumbrances on the Treasurer's report.

County Judge/Executive James Anderson's Response: I think this issue will be resolved with the new financial officer's implementation of new practices to our purchase orders system.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-012 The Fiscal Court Should Approve All Invoices Prior To Payment

The Fiscal Court did not approve all disbursements prior to payment. We noted the pre-approved list of disbursements did not include all recurring disbursements. \$413,601 of recurring disbursements that should have been included was not and had not subsequently been approved by the fiscal court. These mainly consisted of utilities, payroll items, salaries, worker's compensation, and insurances.

In addition, the county adopted a resolution pre-approving all CSEPP disbursements pertaining to the EOC building construction. Pursuant to KRS 68.275(3), "The fiscal court may adopt an order, to pre-approve the payment of monthly payroll and utility expenses. No other expenses shall be pre-approved pursuant to this subsection without the written consent of the State Local Finance Officer...". Since the county did not obtain written consent of the State Local Finance Officer for the pre-approval of these disbursements, the resolution would not be adequate to constitute fiscal court approval. Therefore, \$1,835,316 of disbursements were not approved by fiscal court prior to payment of the total \$2,088,424 disbursements tested for CSEPP.

KRS 68.275 requires all claims be presented to Fiscal Court for review prior to payment. The Fiscal Court should review all invoices and approve the claims list each month.

By not following the above statutes, waste and misappropriation of County assets could occur.

We recommend that the Judge/Executive ensure that all claims are presented to and approved by the Fiscal Court. In addition, we recommend all recurring disbursements be included on the pre-approved lists submitted to the State Local Finance Officer.

County Judge/Executive James Anderson's Response: Most of these issues should be resolved by the updated pre-approved list that has done been adopted. Again the fiscal court handled the EOC construction in the manner recommended by both State and FEMA folks. Also, part of the findings here was in relation to items not been properly recorded in meeting minutes even though they took place and there is documentation that they did.

2014-013 The County Should Maintain Evidence For All Disbursements

The County did not maintain evidence for all disbursements. Four disbursements totaling \$20,818 tested did not have detailed invoices. One purchase was \$8,849 for a vehicle and the remaining three invoices were for ambulance supplies. Also, ten CSEPP disbursements tested did not have all detailed invoices. Furthermore, the county used credit cards for a variety of purposes during fiscal year 2014. Credit card use is allowable, however all purchases must be evidenced by original detailed invoices to determine if those purchases are allowable and for county business. Of the total \$4,636 of credit card invoices tested, \$3,422 did not have a detailed invoice. In addition, the County paid interest of \$52 and late fees of \$72.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-013 The County Should Maintain Evidence For All Disbursements (Continued)

Since the County did not require all purchases to have detailed original invoices attached, we could not determine that payments made for the disbursements were appropriate. The county should require individuals that use the county's credit card to maintain all original detailed invoices or the use of credit card should be limited to those individuals who abide by the requirement of original detailed evidence for all charges. We recommend the County maintain detailed invoices for all disbursement prior to payment.

County Judge/Executive James Anderson's Response: We will insure that all invoices have all the appropriate information on them and are an original invoice to avoid any confusion in the future.

2014-014 The County Lacks Adequate Segregation of Duties Over The Payroll Function

A lack of adequate segregation of duties exists over the payroll function. The payroll clerk enters the information necessary to process the payroll into the computer system, prepares the documentation, including the checks, to transfer monies from the County's Funds into the payroll revolving account, posts the payroll disbursements to the appropriations ledger, reconciles the payroll bank account, prepares and pays withholding reports.

Segregation of duties over payroll functions of cash transfers, preparation of checks, disbursements posting, and reconciliation of bank records to source documents, or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Because one employee handled all payroll functions and oversight was not provided, the following occurred:

- An annual compensation schedule was not approved by the fiscal court.
- Two employees received \$3,000 each in lump sum payments from federal funds that were not allowed.
- Three employees were not working the required 40 hours per week to be considered full-time per the fiscal court's Policy and Procedures Manual; however, they received full-time county benefits including paid holidays, 5 vacation days, 12 sick days, and county paid single coverage health insurance.
- Timesheets are not always maintained for salary employees. Timesheets were obtained that appear to have been completed retroactively.
- Office personnel did not know their sick leave balances.
- Deductions for insurances were not deducted from employee's gross wages properly.
- One employee was paid at double time instead of time and half. 154 hours were paid at \$22.08 that should have been \$16.56, resulting in overpayment of \$850.
- Timesheets are not consistently signed by employee and supervisor.
- Leave balances do not appear to be properly accounted in a central location.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-014 The County Lacks Adequate Segregation Of Duties Over Payroll (Continued)

- Health Insurance was paid for terminated employees. This consisted of overpayments of \$46,040. The County received reimbursement of \$8,567, leaving \$37,473 of unnecessary expenses.
- Overtime was not paid for one employee noted that does not appear to be exempt from being paid overtime.
- The County did not deduct a garnishment from an employee's check; however, they paid into the lender. The employee owes the county \$2,006.
- The County did not deduct health, dental and vision insurances from seven employee's paychecks totaling \$3,566.

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, we recommend the fiscal court separate the duties of entering the information necessary to process the payroll into the computer system, preparing the documentation, including the checks, to transfer monies from the County's Funds into the payroll revolving account, posting the payroll disbursements to the appropriations ledger and reconciling the payroll bank account. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

County Judge/Executive James Anderson's Response: The individual that was over payroll is no longer employed by County. We have a new payroll clerk who I feel has a good grasp of this duty and will prevent these types of issues from happening again.

2014-015 The Payroll Revolving Account Was Not Reconciled To Zero On A Monthly Basis

The payroll revolving account was not reconciled to zero at any time during fiscal year ended June 30, 2014. A revolving account is a clearing account where all funds deposited are paid out and the balance can be reconciled to zero at any given time. As of June 30, 2014, the payroll revolving bank account reconciliation stated the balance was \$147,802. This was an inappropriately high balance for a revolving account and indicated a probable error and the possibility that funds should have been returned to the County's various funds.

Once this issue was brought to the treasurer's and payroll administrator's attention, they worked with the auditor to reconcile the balance to a deficit balance of (\$2,892). Several issues were noted causing this deficit balance:

- The County was paying health insurance for terminated employees and was not deducting the accurate amounts from employees' checks without transferring adequate funds to offset these expenses totaling \$46,040. The County received reimbursement of \$8,567, leaving \$37,473 of unnecessary expenses.
- The County was paid a portion of matching for an industrial board employee with other agencies covering the remaining costs. However, the County is transferring the full amount of \$19,893 from the General Fund and is then depositing \$14,000 of funds from the other agencies into the payroll revolving account.
- The County transferred \$7,544 from the Road Fund for one payroll twice. These funds will have to be reimbursed to the Road Fund.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-015 The Payroll Revolving Account Was Not Reconciled To Zero On A Monthly Basis (Continued)

- The County prepares the payroll for three different outside agencies. These three agencies did not pay the county adequate funds to cover their payrolls for fiscal year 2014.
 - Tourism owes \$2,438
 - Industrial Board owes \$4,553
 - County Attorney owes \$5,689
- The County did not deduct a garnishment from an employee's check however they paid in to the lender. The employee owes the county \$2,006.
- The County did not deduct health, dental, and vision insurances from seven employee's paychecks totaling \$3,566 due back to the county.

We recommend that the payroll revolving account be reconciled to zero on a monthly basis in order to resolve any discrepancies, errors, or omissions that may arise.

County Judge/Executive James Anderson's Response: Again we now have a new person in this capacity who I am more than confident will resolve any existing issues and prevent them from reoccurring in the future.

2014-016 Employees Should Not Receive Additional Pay For Performance Of Regular Job Duties

Two employees were paid \$3,000 each for administrative support from the CSEPP Fund and an additional \$1,569 was paid for matching. Administrative support consists of the preparation of annual budget and the annual financial statement along with the recording of all receipts and disbursements. Since the administrative duties are already a part of their job duties, the employees should not be paid extra for them. These funds were initially designed to reimburse the county for the portion of the County's personnel costs used to account for CSEPP Funds, not as additional salary. KRS 68.210 details minimum requirements for county officials and employees, which includes, but is limited to, preparing the annual budget and the annual financial statement. KRS 68.020 further details the specific duties of the county treasurer, including preparation of the annual financial statement.

No county employees should receive any lump sum payments. Any additional salary the Fiscal Court deemed necessary should have been included in these employees gross wages paid on a biweekly basis. Furthermore, these employees have also received an additional \$3,000 each during the fiscal year ended June 30, 2015 and appear to have been receiving this in previous years.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-016 Employees Should Not Receive Additional Pay For Performance Of Regular Job Duties
 (Continued)

Usually, payroll account codes are on the preapproval list so the Fiscal Court would not necessarily have to individually approve this. However, these payments were posted under office costs account code requiring Fiscal Court approval. We reviewed the Fiscal Court orders and could not find any approval of additional salary. It does not appear that the Fiscal Court was aware that these employees were receiving this additional salary. Since these employees are checks signers for the payroll account, it would have been easy to pay this amount without any oversight.

We recommend the Fiscal Court cease the practice of paying individuals additional pay for performing regular duties of their jobs and paying lump sum payments to individuals. Furthermore, the Fiscal Court should ensure the county financial personnel cannot pay themselves additional funds without any oversight. We will refer this matter to the Attorney General, County Attorney, and the Kentucky Department of Military Affairs for review.

County Judge/Executive James Anderson's Response: I think any confusion as to how or why this happened has been resolved and it shouldn't be a problem in the future.

2014-017 Part-time Employees Should Not Receive Full-time Benefits

According to the Fiscal Court's Policy and Procedures Manual, a regular part-time employee is defined as an employee who works less than 40 hours a week, but on a regularly scheduled basis. We noted three employees that did not work an average of 40 hours a week; however, the employee was considered full-time and received full-time benefits. These employees averaged 36 hours per week including leave time taken and holiday pay. All employees should work the regularly scheduled hours and take leave for hours not worked or leave without pay. If employees do not work the 40 hours per week as required, they should not receive any fulltime benefits. The Fiscal Court should review the Policy and Procedures Manual and determine if this employee is really full-time and should be entitled to all benefits. The Fiscal Court should require supervisors or department heads to adhere to the guidelines set forth by the Policy and Procedure Manual and ensure full-time employees are working scheduled hours unless leave is available and are working at least 40 hours per week.

County Judge/Executive James Anderson's Response: This issue has already been corrected. One of the employees is no longer here and the other two are now back to using a time clock to document their time.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-018 Leave Balances Are Not Maintained Properly

Leave balances are not being maintained properly for County employees. The department heads do maintain separate leave balance sheets for each employee. However, leave balance hours maintained by the payroll clerk that are included on the employee's paystubs are not accurate. Jail employees do not have any leave balances on their paystubs. During review of payroll stubs, leave balances exceeded the amount allowed to be carried over for calendar year. The County should ensure that accurate records are kept for all leave earned and leave taken.

Based on the administrative code full-time employees earn vacation leave after one year of service and as follows: 1 to 5 years – 40 hours or 5 days, 6 to 15 years – 80 hours or 10 days and 15 and thereafter – 120 hours or 15 days. They also earn eight hours or one sick day a month. The employee can only carry over 10 days or 80 hours each year of vacation time, any additional time is lost. Sick leave can be accumulated for 60 days or 480 hours, however, they can only be paid out 240 sick leave hours upon terminating employment.

If employee's leave balances are not accurate and not maintained properly at year end, then an employee could be compensated for more or less hours worked during the year or use leave that they are not entitled to. We recommend the County require the payroll clerk maintain accurate leave balances for each employee. Furthermore, department heads could maintain a leave balance sheet for each of their employees and reconcile these to the County's records on a regular basis to help ensure accuracy.

County Judge/Executive James Anderson's Response: First it should be made clear that leave balances are accurate and maintained they were just not accurate on payroll stubs. This was a result of the past payroll clerk not utilizing the function in the program that would have allowed for these to be properly posted on check stubs. The new payroll clerk is currently working to get this aspect corrected.

2014-019 Employee Insurance Premiums Were Not Accounted For Properly

We found that employees no longer employed by the Fiscal Court were not removed from the health, dental and vision insurance invoice and the County continued to pay for their insurance premiums months after their employment. The County paid excess premiums totaling \$46,040 for 10 employees for up to 14 months after their employment. The insurance company gave the County a credit for two months of these premiums for in the amount of \$8,567. The remaining \$37,473 was an unnecessary expense of the County. We also found that the employee's portion for optional insurances was not withheld from employees' paychecks. The County's administrative code says that the County will pay for single plan coverage and additional coverage will be required to be paid by the employee. For fiscal year ending June 30, 2014, we found the County paid \$3,566 for optional insurance premiums for seven employees that were not withheld from their paychecks. The County should determine if all withholdings were withheld properly prior to fiscal year ending June 30, 2014, and calculate the total amount of insurance premiums that are due back to the County from each employee. We recommend the County ensure that employees no longer employed are removed from the insurance invoice and that optional insurances are properly withheld from employees' paychecks in the future.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-019 Employee Insurance Premiums Were Not Accounted For Properly (Continued)

County Judge/Executive James Anderson's Response: The employee that was over this function is no longer an employee of the county. It should also be noted that for about five months of this audited year this employee had elected to remove our insurance agent as an administrator and was the sole administrator. This took away the agents ability to assist in many of these functions such as adding and removing employees. After the administrator role was restored to agent things have been much more efficient.

2014-020 The Fiscal Court Should Pay Overtime Properly

During our testing of payroll, we found an employee of the County who was not being paid overtime. We also found that one employee of the Road Fund worked 154 hours of overtime during fiscal year ending June 30, 2014. This employee was paid double-time instead of time and a half, which resulted in overpayment of \$850. KRS 337.285(1) states no employer shall employ any of his employees for a work week longer than 40 hours, unless such employee receives compensation for his employment in excess of 40 hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed. KRS 337.285(2) has exceptions to this provision, which includes employees exempt from the overtime provision of the Fair Labor Standards Act. However, this employee does not appear to be exempt from being paid overtime at a rate of one and one-half times her hourly rate. We recommend the County pay overtime properly to all employees.

County Judge/Executive James Anderson's Response: I feel the new payroll clerk will prevent these things from happening in the future.

2014-021 The County Should Ensure All Eligible Employees Participate In Retirement

During our payroll testing we found that three ambulance employees were working over 100 hours per month and not receiving retirement benefits. KRS 78.510(21) says a regular full-time position shall mean all positions that average 100 or more hours per month, determined by using the number of hours actually worked in a calendar year or fiscal year. By not withholding retirement for employees that work an average of 100 hours a month could result in penalties assessed by the Kentucky Retirement System and expose the County to potential future liabilities. Each department head should determine that all employees averaging over 100 hours per month are participating in the retirement system by contacting the payroll clerk and informing the Fiscal Court. We recommend the County correct this issue by ensuring employees receive the proper retirement benefits. We will refer this matter to the Kentucky Retirement System.

County Judge/Executive James Anderson's Response: It is our understanding that these hours would have to be maintained for over a year before this would be necessary.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-022 The County Should Approve A Salary Schedule

The County did not approve and set the salaries for the County employees. KRS 64.530 states the Fiscal Court of each county shall fix the compensation of every county officer and employee. We recommend the County list all employees and each salary or hourly pay rate. The County should also include the starting pay rates for entry-level positions. The County should revise this list as increases are approved by the Fiscal Court.

County Judge/Executive James Anderson's Response: This is another issue of the minutes not accurately reflecting what happened in meetings. We will work with court clerk to try and insure more accurate minutes to prevent such findings in the future.

2014-023 The County Should Maintain Complete And Accurate Capital Asset Schedules

During the review of capital assets, we noted that the County did not maintain a capital asset schedule, nor did they maintain a list of capital asset additions, retirements and disposals. Because a capital asset schedule was not maintained, additions were not accounted for properly. The Department for Local Government (DLG) requires counties to maintain capital asset records (see DLG County Budget Preparation and State Local Finance Officer Policy Manual pages 55-60) as well as a description of the asset, historical cost, date of acquisition, and useful life of the asset. Not maintaining an accurate list of capital assets could cause capital assets to not be insured or paying for insurance for an asset the County no longer owns.

The auditor noted that annual inventories were not being performed. In order to strengthen the County's internal controls over capital assets and infrastructure, and to comply with the Department for Local Government's policy manual, we recommend a schedule of additions be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Furthermore, the capital asset listing should be monitored and maintained on a regular basis.

As new assets are acquired, they should be added to the listing. As equipment is retired or disposed of, it should be removed from the listing. The assets added/deleted should also include capital assets purchased or disposed of by the County Sheriff and County Clerk. The Fiscal Court should reconcile all annual inventory reports to the additions, retired assets, and surplus list to ensure accurate accounting of capital assets. We also recommend that the County implement policies that will identify and track additions, retirements, and disposed assets for the purpose of the capital asset schedule. These procedures will ensure that fixed assets are properly stated and that depreciation is being calculated correctly.

County Judge/Executive James Anderson's Response: We will work with treasurer to see why this was not happening and make sure that these issues are resolved in the future.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-024 The Fiscal Court Minutes Should Be Complete, Adequately Maintained, And Filed In The Proper Location

During our review of the Fiscal Court minutes, we found that an employee that works in the county judge/executive's office had been appointed to be the fiscal court clerk. In addition, the minute books are being filed in the county judge/executive's office. KRS 67.120(1) states that a fiscal court clerk may be appointed by the fiscal court if the county clerk declines to serve as the fiscal court clerk. KRS 67.100(5); however, states that the minute books shall be kept in the office of the county clerk. We recommend the County comply with KRS 67.100(5) and file the fiscal court minutes in the office of the county clerk. In an effort to increase controls over the Fiscal Court minutes, we recommend that the minutes of the court be stored in the County Clerk's office because the minutes are a matter of public record and for public viewing and therefore should be maintained in the County Clerk's office. The pages of the minutes were not numbered after March of 2014. All supporting documentation should be located in the minutes as well in order to support any decision made by the court. Furthermore, the opening of bids should be better documented including bidders and their corresponding bid amount, as well as the winning bidder.

County Judge/Executive James Anderson's Response: As this is not the first issue within the audit that pertains to meeting minutes, we will get with the court clerk and work to resolve the ongoing issues they appear to be having.

2014-025 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code, Ethics Code and Personnel Policy and then make necessary changes and modifications as appropriate. The review of the Administrative Code should be reflected in the minutes of the Fiscal Court.

County Judge/Executive James Anderson's Response: This has happened every year I have been in office. If it is not properly being reflected in minutes then we will work with court clerk to try and resolve issues.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-026 The Detention Center Lacks Adequate Segregation Of Duties

Segregation of duties over accounting functions of cash collection, cash disbursements, and reconciliation of bank records to source documents or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

A lack of segregation of duties exists over the accounting function at the Detention Center. One employee collects funds, prepares deposits, makes deposits, prepares monthly reports, remits monthly reports along with inmate fees to the County Treasurer, reconciles the bank account and makes payments from the bank account. All reviews should be documented by initialing deposit slips, bank statements, invoices, and other monthly reports.

A limited staff and a limited budget places restrictions on the number of employees the Detention Center can hire. When faced with limited staff, strong compensating controls should be in place to offset the lack of segregation of duties.

To adequately protect against misappropriation of assets and/or fraudulent financial reporting, the Jailer should separate the duties involving the collection of cash, deposit of cash, disbursement of cash, and reconciliation of cash. If, due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Jailer could also provide this oversight:

- The Jailer, or his designee, could periodically compare a daily bank deposit to the daily checkout sheet and receipts ledger.
- The Jailer could require dual signatures on all checks, with one being the Jailers.
- The Jailer, or his designee, could compare bond fees, booking fees, and housing fees recorded on daily checkout sheets or the receipts ledger to computer generated reports and monthly disbursements to the fiscal court. Any variances should be reconciled.
- The Jailer, or his designee, could reperform reconciliations of beginning inventory on hand to purchases, sales, and ending inventory on hand. Alternatively, the Jailer could periodically recount physical inventory available for sale. The Jailer's count should be compared to the ending inventory on hand balance. Any variances should be reconciled.

County Jailer Travis Crabtree's Response: Changes have been made since this report to ensure that all signatures are required on any and all records pertaining to the Detention Center.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-027 The Jailer Should Maintain Accurate Accounting Records For The Jail Commissary Fund

During the testing of the Jail Commissary Fund, we noted the following deficiencies:

- Detailed receipts and disbursements ledgers were not maintained. However, after auditors requested these documents and with guidance, the Jailer's bookkeeper did provide a receipts and disbursements ledgers for the current year.
- Receipts and disbursements maintained in the computer system were not reconciled to the bank statements correctly. The bank reconciliations were being reconciled to the 3rd of the following month instead of to the last day of the month. Jail personnel contacted the software vendor and had this corrected.

The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual outlines the following minimum accounting and reporting requirements pursuant to KRS 68.210:

- Daily Checkout Sheet and Daily Deposits
- Receipts Journal
- Disbursements Journal
- Jail Commissary Summary and Reconciliation

When notified of the above requirements, jail personnel prepared a receipts and disbursements ledger and a correct jail commissary summary and reconciliation. We recommend the Jailer comply with the above requirements by continuing to prepare accurate daily checkout sheets. In addition, we recommend, in order to comply with these requirements, the Jailer should begin preparing a detailed receipts ledger, reconcile the daily checkout sheets to daily deposits and to the receipts ledger, reconcile receipts and disbursements in the computer system to the bank statements, and prepare a detailed disbursements ledger.

County Jailer Travis Crabtree's Response: We have since started daily checkout sheet for receipts and journals. We have also included the jail commissary account in our summary and reconciliation reports.

2014-028 The Jailer Did Not Submit An Annual Canteen Report To The County Treasurer

The Jailer did not submit an annual canteen report to the County Treasurer. KRS 441.135(2) states the Jailer "shall annually report to the County Treasurer on the canteen account." The Jailer did not prepare a canteen report for the fiscal year ending June 30, 2014 until requested by the auditors. The Jailer did prepare a financial statement on the Inmate Wellness Account but not the Jail Commissary Fund. By not submitting a canteen report, the County is unaware of the activities of the Jail Commissary Fund. We recommend the Jailer submit an annual canteen report to the County Treasurer at the end of each fiscal year. This should include the beginning cash balance, summary of receipts and disbursements, and the reconciled year-end balance.

County Jailer Travis Crabtree's Response: We submitted this report after the audit. We had all records but wasn't aware the treasurer had to have a copy of it.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-029 The Jailer Is Not Maintaining Proper Inventory Logs On E-Cigarettes

The jail should improve the inventorying of e-cigarettes. The jail does maintain a monthly inventory on these e-cigarettes; however, it should better detail the e-cigarette activity. The new inventory is not logged into the jail commissary's computer system at the time of delivery. However, inventory is counted and a log is maintained by the detention center but it does not include a listing of purchases less sales and bad inventory and a total for available inventory that is agreed to an actual inventory count. By not maintaining adequate inventory logs, the jail risks the potential for loss due to errors or fraud. We recommend the Jailer ensure all inventory is accounted for, maintained, and that any missing inventory is investigated. In addition, we recommend the inventory be counted regularly and two employees initial the inventory count verifying its accuracy.

County Jailer Travis Crabtree's Response: We have started a ledger so that every e-cigarette is accounted for and two people sign off.

2014-030 The Jailer Should Maintain Detailed Invoices For All Purchases

During our audit of the Jail Commissary Fund, we noted that two detailed invoices for the purchase of vehicles were not maintained by the Jailer. Basic internal control procedures require the Jailer to maintain documentation for each disbursement. Failure to adhere to these procedures increases the risk that the jail commissary disbursements will be materially misstated or funds will be misappropriated. Therefore, we recommend the Jailer ensure all detailed invoices are maintained to properly account for the Jail Commissary Fund.

County Jailer Travis Crabtree's Response: We have notified all of our vendors that we have detailed invoices and not just a receipt with the amount. Changes was made and corrected.

2014-031 The Jailer Should Improve Controls Over Inmate Refunds

Inmate refunds are paid by check to inmates upon release from the detention center. Inmate checks are issued by the bookkeeper and signed by the Jailer and may not be available to the inmates when they are released from the detention center. Inmates are asked to come by the front office after their release to pick up their refunds. If the inmate does not come and pick up his/her refund, the detention center will mail inmate refunds to the inmate and to other detention centers depending on the status of the prisoner. However, if any refunds are returned to the Jailer because the inmate is unable to be located, the Jailer keeps the monies for the required year but does not transfer any of these abandoned monies into the commissary account.

KRS 441.137 provides guidance for the return of inmate moneys to the Jailer. The Jailer shall transmit a check for the balance of the monies by first class mail to the released prisoner at his or her last known address. If the check is returned as undeliverable, then the Jailer shall attempt to contact the prisoner at a telephone number on file. If the monies are not claimed after the Jailer fulfills these requirements, the monies shall be presumed abandoned after one year after the date the check is mailed or after the date of the phone call. Any abandoned monies shall be transferred into the commissary account.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Financial Statement Findings (Continued)

2014-031 The Jailer Should Improve Controls Over Inmate Refunds (Continued)

Under the current policy, abandoned inmate monies are not being transferred into the Jail Commissary Fund. We recommend the Jailer improve controls over inmates' refunds and follow guidance set forth by KRS 441.137.

County Jailer Travis Crabtree's Response: Up until this report we [sic] was not aware that we could collect money from inmate accounts that hasn't [sic] been claimed. Since we have started this and see that it could help the revenue of our jail commissary account [sic].

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

2014-032 The County Did Not Properly Manage The Activity Of \$2,921,538 Of CSEPP Funds

Federal Program: CFDA #97.040 Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Compliance Area: All

Amount of Questioned Costs: \$0

The County did not manage the activity for \$2,921,538 of CSEPP (Chemical Stockpile Emergency Preparedness Program) funds properly and ensure compliance with federal compliance requirements.

The CSEPP Coordinator encumbered county funds and solicited bids without direction of the Fiscal Court. In some instances, the fiscal court minutes state bid proposals were presented by the coordinator without any mention of the opening of sealed bids. The CSEPP coordinator made purchases without obtaining purchase orders and determining if the county had available funds. He is also the only one with any knowledge of CSEPP and allowable activities. Grant agreements were not available to county financial personnel. These agreements noted allowable and non-allowable costs, information vital to accounting for federal funds properly. In addition, when he did complete the reimbursement forms and receive email notification of the funds being deposited into the CSEPP account, he did not inform the County Treasurer or make her aware of any requirements involving her records.

This created an environment of very little oversight and opportunities for management override internal controls. In addition, this allowed material weaknesses in the internal control procedures over the compliance requirements for CSEPP as noted in the additional comments.

Unless the CSEPP Coordinator takes an active role in informing other pertinent county personnel with federal funds requirements and put in place a system of controls to ensure they are in compliance, the County has the potential to lose federal funding.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

2014-032 The County Did Not Properly Manage The Activity Of \$2,921,538 Of CSEPP Funds

We recommend the CSEPP Coordinator work together with pertinent county personnel to ensure the county is in compliance with federal compliance requirements. Furthermore, the County should require the Coordinator to comply with county, state, and federal requirements by keeping required county personnel informed of CSEPP activities before not after purchases are made. We will refer this matter to the Kentucky Department of Military Affairs.

County Judge/Executive James Anderson's Response: The bid issue and purchase order issue has been resolved. I have also recommended to the court some personnel changes that I think would help correct these issues.

2014-033 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Allowable Costs For The CSEPP

Federal Program: CFDA #97.040 Chemical Stockpile Emergency Preparedness Program
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Amount of Questioned Costs: \$21,136

The County received \$2,944,012 of federal funds for a reimbursement grant from CSEPP (Chemical Stockpile Emergency Preparedness Program). The County should improve controls relating to allowable costs for CSEPP funding. The CSEPP Coordinator appears to be the only person knowledgeable on allowable costs of the CSEPP grant. The County did not have CSEPP grant agreements on file until requested. Grant agreements specify allowable and non-allowable costs. Since the county financial personnel were not aware of allowable costs, they paid and posted non-allowed costs to the CSEPP account codes. The CSEPP Coordinator must keep pertinent county employees informed of grant requirements.

The CSEPP Coordinator compiles invoices and prepares the form 1801 to request reimbursement from federal funds. During audit procedures, we noted \$21,136 of federal CSEPP funds paid for unallowed costs.

- Gas receipts for \$10,019 were paid. These did not include all the detailed gas tickets. In addition, the gas was paid for both the CSEPP Coordinator and the EMA Director. Any gas purchased for any other activity besides used specifically for CSEPP would not be allowable. In addition, the vehicles are driven to employee's residents and the potential for personal use exists. Since they are driven home, the County should review to determine the fringe benefit and include as a taxable fringe benefit to those employees.
- \$2,623 of expenditures made did not include a detailed invoice. Allowability of these expenditures was not able to be determined due to lack of detailed invoices.
- \$6,000 of salaries paid to the County Treasurer and Finance Officer and the \$1,569 of matching for these salaries that were not allowed based on costs allowed by the CSEPP grant.
- \$925 of costs spent on traffic cones and other miscellaneous items that were not allowed per grant.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit
(Continued)

2014-033 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Allowable Costs For The CSEPP (Continued)

The County should ensure detailed invoices are maintained and all county policies are adhered to in order to ensure all CSEPP funds are used for allowed costs and activities. Because the County expended federal funds for unallowed costs, they have the potential of losing future federal funding. We recommend the CSEPP Coordinator have the county employees such as the Treasurer or Finance Officer review his invoices before reimbursements are requested to ensure compliance with county policies and that detailed invoices are maintained. We will refer this matter to the Kentucky Department of Military Affairs.

County Judge/Executive James Anderson's Response: Again if the court will approve my recommend personnel changes I think we can add more oversight and more quickly resolve all these issues.

2014-034 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP

Federal Program: CFDA #97.040 Chemical Stockpile Emergency Preparedness Program
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Cash Management
Amount of Questioned Costs: \$0

The County should improve controls relating to cash management for CSEPP funding. The CSEPP Coordinator compiles all invoices and prepares the 1801 form to request reimbursement from CSEPP funds.

The CSEPP Coordinator maintains copies of all the 1801 forms (cash draw-down or reimbursement forms) with the invoices separated by the grant year. During the audit procedures, we agreed a sample of expenditures and compared them to the 1801 forms and noted \$21,717 of expenditures that were not included on the 1801 forms for reimbursements. The CSEPP Coordinator should ensure all allowable expenditures are included on the 1801 forms for reimbursement.

However, the coordinator does not obtain a list of all checks paid that are posted to the CSEPP account codes to ensure all expenditures paid by the County are included on the reimbursement forms (1801s). In addition, there is not a regular interval set where he goes through the checks and invoices to ensure the County receives reimbursements regularly. Furthermore, payroll expenditures are not included on the 1801s on a regular basis. We recommend the CSEPP Coordinator and Financial Officer meet on a monthly basis to review all expenditures paid including payroll and request reimbursements monthly in order to ensure the general fund is reimbursed timely and adequately.

The Coordinator should also obtain a monthly check listing from the County Treasurer and note each item as it is included on the 1801 form and again when it is reimbursed. This would ensure that items are only included on the form once and reimbursements are obtained. Without improvement to cash management controls, the County could jeopardize future federal funding. We recommend the CSEPP Coordinator work with other county employees to ensure 1801 forms include all invoices.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit
(Continued)

2014-034 The County Should Improve Controls Relating To The Single Audit Compliance Requirements Of Cash Management For The CSEPP (Continued)

Furthermore, the cash management requirement includes a provision that all federal funds received prior to the expenditures being paid must be paid out within a timely manner. Since the grant agreement does not specify a certain number of days, we contacted the oversight agency and were notified to use five days as the time frame for determining if a payment was timely. Of the \$1,923,611 of funds received in advance, \$1,277,878 was not paid within the five days. The longest period was 22 days from the receipt of the federal funds. The delay was in part due to the lack of communication between the CSEPP Coordinator and the Treasurer. The CSEPP Coordinator receives an email letting him know when deposits will be arriving; however, he does not forward the emails to the Treasurer or inform her in any way of the arrival of federal funds.

In addition, the Treasurer is not making timely transfers from the CSEPP bank account to the General Fund where the expenditures are paid from.

Federal fund are received into the CSEPP bank account periodically through the year; however, the Treasurer only transfers funds twice a month usually. Since the General Fund pays the CSEPP expenditures when funds are received, transfers should be made to the General Fund within three to five working days so General Fund are replenished and available for other expenditures.

Furthermore, the CSEPP Coordinator makes all purchases without any request for purchase orders or any consultation with the county financial officers to determine if budget and funds are available for purchases. County financial officers are not aware of any CSEPP expenditures until invoices are received in the mail or CSEPP Coordinator gives them an invoice. Some bills are not mailed to the County Judge/Executive's office creating the potential for invoices not being paid timely due to not receiving them. It appears that the CSEPP Coordinator works outside the control of the Fiscal Court and other county employees. We recommend the Fiscal Court ensure the CSEPP Coordinator meets regularly with the county's financial personnel, request purchases orders prior to making purchases, contact all vendors and ensure the county judge/executive's address is included on all invoices, keep county financial personnel aware of allowable costs and inform them of reimbursements, so that the General Fund is reimbursed in a timely manner and the county is aware of all activities of the CSEPP grant program. We will refer this matter to the Kentucky Department of Military Affairs.

County Judge/Executive James Anderson's Response: I feel we have already taken measures to correct these issues and prevent them from happening in the future.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit
(Continued)

2014-035 The County Should Improve Controls And Comply With Requirements Of Procurement, Suspension, And Debarment For The CSEPP And Should Comply With KRS 424.260 And Bid All Expenditures Over \$20,000

Federal Program: CFDA #97.040 Chemical Stockpile Emergency Preparedness Program
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Procurement, Suspension, and Debarment
Amount of Questioned Costs: \$0

The County was not aware of the requirements for procurement, suspension and debarment. The CSEPP Coordinator did not ensure that vendors were not suspended or debarred from projects funded from federal monies. He should review the sam.gov website and input all vendors to ensure they are not excluded from federal projects. Had any vendor used been suspended or debarred from federal projects, the County could have potentially put themselves at risk for the waste, abuse or fraud. However, all vendors used were not on the exclusion list.

The County was in the process of building an EOC building. During the process, the County had a selection committee that reviewed the bids to ensure they are in compliance with building specifications. Then the Judge/Executive would bring the tally sheets to the Fiscal Court where he would communicate the recommendation of the committee to the Fiscal Court. The Fiscal Court should then decide the winning bid and approve the contracts with vendors. However, the Fiscal Court minutes did not include any mention of receiving bids or the decision of winning bidder for the architect and general contractor for the project. In addition, there is no mention of other contractors and approval of those bids. Of the \$2,088,424 expenditures tested, \$430,646 were not bid and approved by the Fiscal Court. KRS 424.260 states when the county makes a contract, lease, or other agreement involving an expenditure of more than \$20,000, they must advertise for bids. We recommend the County comply with KRS 424.260 and advertise for bids for purchases of more than \$20,000. Furthermore, the County should comply with all procurement, suspension and debarment requirements on any federal funds received. We will refer this matter to the Kentucky Department of Military Affairs.

County Judge/Executive James Anderson's Response: The new requirements will be added in the updated policy procedure manual. In regards to the EOC project all the processes were gone through and were done so as outlined by our procedure manual as well as what was required by FEMA and the State partners involved in this projects. This comment is again a result of inaccurate minutes. We will work with court clerk to improve information included in minutes as well as make the court aware of how vital it is to make sure they are accurate before there approved.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit
(Continued)

2014-036 The County Should Improve Controls And Comply With Requirements Of Davis Bacon Act

Federal Program: CFDA #97.040 Chemical Stockpile Emergency Preparedness Program
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Davis Bacon Act
Amount of Questioned Costs: \$0

The County was not aware of the compliance requirements for Davis Bacon. The specific requirements for compliance with the prevailing wages under the Davis-Bacon Act apply to construction contracts in excess of \$2,000 financed by federal assistance funds. The bid specifications notified vendors of the requirement for paying prevailing wages. However, the contracts between the County and the vendor did not include a clause stating that they knew they had to comply with Davis Bacon Act and pay prevailing wage. The vendors did prepare certified payrolls worksheets and provided them as required. Without including a prevailing wage clause in the contract for the building, the vendors could not comply with the requirement. We recommend that the County require all construction contracts with vendors in excess of \$2,000 financed by federal assistance funds to include a clause saying the vendor will comply with Davis Bacon and pay prevailing wage. We will refer this matter to the Kentucky Department of Military Affairs.

County Judge/Executive James Anderson's Response: The county was aware of the Davis Bacon and these contracts were reviewed by state and federal partners on this project.

2014-037 The County Should Improve Controls And Comply With Requirements Of Equipment And Real Property Management

Federal Program: CFDA #97.040 Chemical Stockpile Emergency Preparedness Program
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Equipment and Real Property Management
Amount of Questioned Costs: \$0

The County should comply with the requirement of equipment and real property management. Equipment charged directly to an award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit and all real property acquired with federal funds must be accounted for, maintained, and controlled pursuant to this requirement. However, the CSEPP Coordinator does not maintain an updated list of capital assets. He only updated his current list after auditor's arrival and it was requested. In addition, he should agree his list to the list compiled from the state when an inventory is completed to ensure accuracy. At no time has the Coordinator provided a capital asset list to the county's financial personnel to be included in the county's capital asset list. By not maintaining a list of assets over \$5,000, assets could potentially be used for non-CSEPP approved activities and potentially be exposed to loss, mismanagement or fraud. We recommend the County require the CSEPP Coordinator to maintain and update a list of all capital assets over \$5,000 and their locations and periodically observe this inventory. We will refer this matter to the Kentucky Department of Military Affairs.

County Judge/Executive James Anderson's Response: We will work with CSEPP coordinator to make sure he is doing what is necessary to be in compliance. I would again like to mention that my recommended personnel changes would help add in oversight here if there approved.

POWELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section IV: Summary Schedule of Prior Audit Findings

None.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

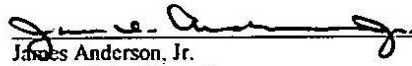
POWELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
POWELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Powell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


James Anderson, Jr.
County Judge/Executive


Connie Crabtree
County Treasurer

